

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 91-568-S - ORDER NO. 92-244  
APRIL 10, 1992

IN RE: Application of Midlands Utility, Inc.	)	ORDER
for Approval of a New Schedule of Plant	)	APPROVING
Expansion and Modification Fees for	)	RATES AND
Sewerage Service Provided to Customers	)	CHARGES
in its Service Areas for which the City	)	
of Cayce Provides Treatment Service.	)	

This matter is before the Public Service Commission of South Carolina (the Commission) on the Application of Midlands Utility, Inc. (Midlands or the Company) for an increase in its plant expansion and modification fee for sewer service provided to its customers in its service areas for which the City of Cayce provides treatment service. The Company's November 8, 1991 Application was filed pursuant to S.C. Code Ann. §58-5-240 (1976) and 26 S.C. Regs. 103-821 (1976).

By letter dated December 9, 1991, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate

pleadings. The Company was likewise required to directly notify all customers affected by the proposed rates and charges. A Petition to Intervene was filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

A public hearing on the matters asserted in the Company's Application was held on March 11, 1992 in the Hearing Room of the Commission at 111 Doctors Circle, Columbia, South Carolina. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1991), a panel of three Commissioners was designated to hear and rule on the matter.<sup>1</sup> William E. Booth, III, Esquire, represented the Company; Carl F. McIntosh, Esquire, represented the Consumer Advocate; and Gayle B. Nichols, Staff Counsel, represented the Commission Staff. The record from this proceeding consists of the testimony of three (3) witnesses, one exhibit, and Order No. 88-1029, dated October 4, 1988, in Docket No. 88-103-S. During the hearing Midlands asked the Commission to take judicial notice of this Order. 26 S.C. Regs. 103-870(C)(1976).

Based on its thorough consideration of the parties' testimony, Midland's Application, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

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1. The Honorable Marjorie Amos-Frazier, presiding, and the Honorable Fred Fuller and Guy Butler served on the panel.

FINDINGS OF FACT

1. Midlands is a South Carolina corporation which provides wastewater service to residential and commercial customers in Fairfield, Lexington, Orangeburg, and Richland Counties, South Carolina. The City of Cayce provides treatment service for Midlands for customers in a portion of the Company's service areas. Presently, those areas include, but are not necessarily limited to, the residential subdivisions of Westgate, Parkwood, Arborgate, and Charwood and the mobile home parks known as Hendrix Mobile Home Park and Oswalt Mobile Home Park.

2. Midlands present plant expansion and modification fee for customers whose sewage is treated by the City of Cayce was approved by Order No. 88-1029, dated October 4, 1988, in Docket No. 88-103-S. Currently, Midlands approved plant expansion and modification fee for these customers is \$750.00 per single family equivalent (SFE). According to its Application, Midlands proposes to increase its plant expansion and modification fee to \$875 per SFE for those new customers whose sewage is treated by the City of Cayce.<sup>2</sup> Midlands asserts the increase of \$125.00 is necessary because the City of Cayce has increased its sewer tap fee from \$750.00 to \$875.00. Application, Exhibit H.

3. The uncontroverted evidence of record indicates that, in November 1984, the City of Cayce entered into a contract with

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2. Midlands' approved plant expansion and modification fee for customers whose sewage is not treated by the City of Cayce is \$250.00 per SFE. Order No. 92-84, dated February 28, 1992, Docket No. 90-528-S.

Midlands.<sup>3</sup> Pursuant to this contract, the City of Cayce agreed to dedicate a certain amount of its own sewer treatment capacity to Midlands in exchange for the payment of sewer tap fees and monthly treatment charges. In 1987, Midlands signed a promissory note for \$107,000.00, plus interest at the rate of 10% per year, with the City of Cayce for 535 sewer tap fees. Hearing Exhibit 1. Midlands is not seeking approval of an increase in its plant expansion and modification fee for the 535 sewer taps. For depreciation purposes, the Commission has previously approved a forty year life for the 535 sewer taps.

In May 1988, Midlands signed a second promissory note for \$111,000.00, plus interest at the rate of 10% per year, with the City of Cayce for 222 sewer taps. These sewer taps cost Midlands \$500 each. At that point in time the City of Cayce's standard rate for sewer taps was \$750. The City of Cayce discounted the cost of its sewer taps to Midlands because the utility bought the sewer taps in bulk. By letter dated September 26, 1991, the City of Cayce notified Midlands that its rate for the purchase of a sewer tap would increase to \$875.00, effective October 1, 1991.

Pursuant to a contract between Midlands and two landowners, South Woodside Parkway and Shumaker Land Company, the Company is obligated to sell these landowners 132 of the 222 sewer taps for

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3. This agreement was approved by the Commission in Order No. 86-796, issued on July 31, 1986, in Docket No. 84-475-S.

\$500.<sup>4</sup> Midlands has sold several of the remaining ninety (90) sewer taps; some of the remaining 90 sewer taps are in the Company's inventory and, consequently, are available for sale.

Midlands requests the Commission allow it to sell the remaining sewer taps in its inventory at \$875 a piece. Through the testimony of its President, Charles B. Parnell, Midlands agreed to charge its new customers the rate, including any discount, that the City of Cayce charges it for the purchase of new sewer taps.

Midlands has not made any payments towards the principal on either the \$107,000.00 note or the \$111,000.00 note with the City of Cayce. The \$107,000.00 note is payable in full on March 25, 1992. Midlands current customers are paying the carrying charges on these promissory notes.

4. Wayne Burdett, Assistant Accounting Manager, for the Public Service Commission, testified that it was his recommendation that any remaining unsold taps from the purchase of the 222 sewer taps which have not been reserved by contract with South Woodside Parkway and Darby Place<sup>5</sup> should be sold for \$750 each. Mr. Burdett testified that Midlands should be required to sell the sewer taps in inventory based on a First In, First Out (FIFO) valuation basis. Based on Mr. Parnell's statement that

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4. This \$500 charge is allocated between a \$250 plant expansion and modification fee and a \$250 tap fee.

5. The Commission recognizes that Shumaker Land Company, Inc. is owner of a 22 acre tract of land known as Darby Place Subdivision which is serviced by Midlands. Order No. 88-1029.

Midlands would sell any new sewer taps it purchased from the City of Cayce for the price at which it purchased the sewer taps, Mr. Burdett recommended that the Commission require Midlands to sell its customers newly-purchased City of Cayce sewer taps at \$875, less any discount Midlands received from the City of Cayce.

Mr. Burdett testified that, on a prospective basis, the Commission should require the plant expansion and modification fees collected by Midlands to be segregated in a cash account. Mr. Burdett suggested that the use of the proceeds in this escrow account would be limited to 1) paying the principal on the outstanding \$111,000.00 note with the City of Cayce; 2) purchasing future sewer taps from the City of Cayce; and 3) with prior written Commission approval, expanding or modifying Midlands' sewage treatment system which is not interconnected with the City of Cayce. Mr. Burdett explained that a plant expansion and modification fee is a form of a contribution in aid of construction which is designed to aid a utility in acquiring needed plant. Mr. Burdett testified that Midlands would benefit from escrowing these funds because its customers would be providing the funds for system expansion or modification rather than requiring the Company to raise proceeds for its system expansion and/or modification.

Finally, Mr. Burdett testified that the Commission has already established a forty year life for the 535 sewer taps purchased by Midlands in 1987. Mr. Burdett stated that as the remaining 222 sewer taps are purchased out of Midlands' inventory,

the sewer taps should be capitalized to the Company's plant and written off over a forty year life, rather than being expensed in the year of the sale. Mr. Burdett testified that the cost of the sewer taps should be capitalized because they will be used for many years and their costs should likewise be spread over those years.

5. At the conclusion of the testimony the Consumer Advocate stated it was in agreement with the Commission Staff's recommendations and that it urged the Commission to adopt those recommendations.

#### CONCLUSIONS OF LAW

1. The Company is a sewer utility providing sewer service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10, et. seq. (1976).

2. The City of Cayce provides treatment service for some of Midlands' customers pursuant to an agreement dated November 14, 1984.

3. The Commission denies Midlands' request to increase its plant expansion and modification fee for the 222 sewer taps it purchased from the City of Cayce to \$875.00. The Commission recognizes that in Order No. 88-1029 it stated Midlands "should not be penalized for having the foresight to procure by promissory note 222 [sewer] taps in advance at \$500 from the City of Cayce," and that it approved Midlands' request to charge \$750 for sewer

taps it had purchased for \$500. However, in the same order the Commission stated that it would not automatically approve subsequent requests for an increase to coincide with an increase imposed by the City of Cayce and that it was "incumbent upon the Company to demonstrate to the Commission that any future rate increase is reasonable at the time it is sought to be implemented." Order No. 88-1029, p. 9. The Commission concludes that, in this case, the Company has not established that an increase from \$750 to \$875 is warranted.

4. The Commission concludes that Midlands should be required to sell its remaining inventory of the 222 sewer taps, excluding those sewer taps reserved under its contract with South Woodside Parkway and Shumaker Land Company, prior to selling any new sewer taps purchased from the City of Cayce. The Commission concludes these sewer taps should be sold in order to reduce the Company's depreciable plant, depreciation expense, and interest expense.

5. The Commission approves Midlands' agreement to sell its customers any future sewer taps it purchases from the City of Cayce at the price the City of Cayce sells the tap, including any discount.

6. From the date of this Order, Midlands shall escrow all funds it receives for the sale of the remaining 222 sewer taps or funds it receives for the sale of future sewer taps that are purchased from the City of Cayce. Midlands may use the funds in this account to reduce the principal on its 1988 promissory note



with the City of Cayce or to purchase additional sewer taps from the City of Cayce once all 222 sewer taps, excluding those reserved for South Woodside Parkway or Darby Place Subdivision, have been sold. Upon written request, served on the Commission and the Consumer Advocate, and after written approval from the Commission, the Company may also use the funds in its escrow account to expand or modify its sewer treatment system which is not interconnected with the City of Cayce. The Commission concludes that requiring Midlands to segregate funds collected as a plant expansion and modification fee is appropriate because these funds should be used to acquire needed plant. Moreover, the Company will benefit by having funds available when it needs to acquire new plant.

7. Finally, all sewer taps that Midlands either has purchased or may purchase from the City of Cayce shall be capitalized and written off over a 40 year period. The Commission recognizes that the treatment capacity represented by the sewer taps has an anticipated useful life of 40 years and that it has already approved a 40 year life for the 535 sewer taps purchased by Midlands 1987 promissory note with the City of Cayce.

IT IS THEREFORE ORDERED:

1. Midlands' request for an increase in its plant expansion and modification fee for its remaining 222 sewer taps is denied. The remaining sewer taps in Midlands' inventory, excluding those reserved for South Woodside Parkway and Darby Place Subdivision, and new purchases from the City of Cayce should be accounted for

on a First In, First Out (FIFO) basis. See Appendix A.

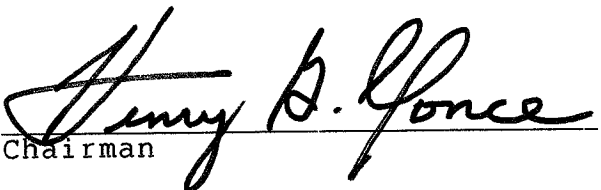
2. Should Midlands purchase any new sewer taps from the City of Cayce, it shall charge its customers the price it paid the City of Cayce for the sewer taps, including any discount. See Appendix A.

3. From the date of this Order, Midlands shall place all funds it collects from customers whose sewage is treated by the City of Cayce as a plant expansion and modification fee in a separate account. Funds may be disbursed from this escrow account in accordance with the terms of this Order.

4. All sewer taps which Midlands has purchased or which it does purchase from the City of Cayce shall be capitalized and written off over 40 years.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
VICE Chairman

ATTEST:

  
Executive Director

(SEAL)

APPENDIX A

MIDLANDS UTILITY, INC.  
P.O. Box 887  
LEXINGTON, S.C. 29072  
(803) 359-4803

FILED PURSUANT TO DOCKET NO. 91-568-S - ORDER NO. 92-244  
EFFECTIVE DATE: APRIL 10, 1992

SCHEDULE OF PLANT EXPANSION AND MODIFICATION FEES  
FOR CUSTOMERS WHOSE SEWAGE IS TREATED BY THE CITY OF CAYCE

For sewer taps which are in Midlands - \$750 per SFE\*  
Utility's inventory of sewer taps  
purchased from the City of Cayce as  
of the date of this Order, excluding  
the 132 sewer taps reserved by  
contract with South Woodside Parkway,  
Inc. and Richard T. Conly, Jr.

All other sewer taps purchased by - \$875 per SFE\*  
Midlands Utility from the City of  
Cayce or rate charged  
to Midlands Utility by  
the City of Cayce,  
including any discounts,  
whichever is less

\* Such applicable fee will be increased to reflect the full gross-up  
method for collecting the impact of taxes and fees upon the amount  
collected as set forth in Order No. 88-237, effective on March 18, 1988.